

USAID/Macedonia

Annual Report

FY 2004

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Please Note:

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Macedonia

Performance:

Background: The Ohrid Framework Agreement ended the 2001 ethnic conflict and provides overall political stability for Macedonia as the transition to an open democracy and market economy continues. The Government of Macedonia is seeking to join both NATO and the European Union and has a proactive reform agenda. Since signing the Framework Agreement, Macedonia has made tremendous progress in implementing many of the provisions. The government has modified the constitution in 16 areas to comply with this peace accord, passed landmark legislation to begin decentralizing government, implemented an amnesty law that paved the way for former combatants to participate in public life, and held free and fair parliamentary elections in 2002. The elections resulted in a moderate, non-nationalist government, whose priorities have included Framework Agreement implementation. Legislative and policy reforms are proceeding rapidly with major laws expected to be passed by the end of 2003. The government conducted a successful census that met international standards in November 2002 and accurately depicted the ethnic composition of population.

Macedonia must overcome numerous hurdles for democratic development. Confidence in democracy is still fragile; political parties could be more responsive to popular needs; and patronage and corruption continue to exist. Ordinary citizens, regardless of their ethnicity, generally feel alienated by the country's elite-dominated party system, and civil society has not developed to where it can exert significant influence over the political players' actions or function in a proactive way to meet citizens' needs. Lastly, the judiciary remains unable to provide adequate checks and balances in the system of government.

The Government of Macedonia faces serious economic problems. Although the economy grew by an estimated 3% in 2003, up from the 0.7% growth in 2002, the economy remains weak and last year's growth was narrowly based on a few sectors. It continues to recover from the severe negative consequences of the 2001 conflict. The unemployment rate estimated to be 32% last year has risen to almost 37% this year. Half of unemployed persons are under the age of 30 and salaries in real terms for those who are employed remain well below their early 1990s levels. The Macedonian economy does not yet have the flow of private capital funds from domestic and foreign direct investment needed to ensure adequate rates of growth to absorb unemployment. Political uncertainty and foreign investors' lack of confidence has continued. As a result, per capita foreign direct investment remains one of the lowest in the Central and Eastern Europe region.

The Macedonian financial system has remained stable but it continues to charge high interest rates and has limited investors' access to capital necessary for significant economic growth. However, there have been some positive events that are beginning to help improve the economy. In April 2003, Macedonia negotiated a \$28.4 million standby agreement with the IMF. The first IMF review in October 2003 of Macedonia's performance was positive, freeing a second disbursement of funds. In addition to stabilizing the macroeconomic setting, Macedonia has taken key steps to make the economy more export oriented. The resultant macroeconomic stabilization will generally strengthen the business climate and should improve prospects for next year. To ensure a more significant turnaround of investment, further action will be needed to reduce corruption and to create a more business friendly legal environment. Macedonia became a full member of the World Trade Organization in April further integrating the country with the world economy. The government is about to modify trade laws to meet fully compliance requirements of WTO. This legislation will help create a more predictable environment for investment, commerce, and trade. In addition, the Government is taking steps to improve the Company's Law that will facilitate investment. Macedonia also formed a National Entrepreneurship and Competitiveness Council and identified the key product clusters which are the most promising for expanding exports. The action plans will improve performance in these promising industries.

US Interests and Goals: Maintaining peace and stability in Macedonia remain the top foreign policy interests of the US for this small but strategically-placed Balkan country. The US supports the Ohrid Framework Agreement as a key to overall stability and good governance. The US wants to see Macedonia revive its economy and to continue to move integration with NATO and the European Union forward. In sum, the US goals are to see Macedonia successfully deal with ethnic conflict, stimulate a vibrant democracy, and to manage effectively its transition to a market economy. These goals are present in each of USAID's three strategic objectives. These objectives are: the revitalization and acceleration of the private sector economy; strengthening vital components of democracy, including local self government; and reducing the costs of transitioning to a market economy by supporting enterprise growth and reorienting the education system to train Macedonian youth in needed job skill areas.

Donor Relations: USAID and the Government of Macedonia realize the importance of donor coordination, especially in developing common agendas and avoiding duplication of programs. USAID is taking the lead in coordination among donors that are working on decentralization, a crucial area for the stability of the country and EU integration. In addition, as the European Union development assistance, implemented through the European Agency for Reconstruction, starts to grow, USAID is ensuring that programs are compatible. Where possible, USAID and the European Agency for Reconstruction have engaged in jointly funded activities to leverage inputs and achieve common goals, such as the Training Coordination Office for municipalities. Anti-trafficking efforts are well coordinated with USAID hosting the first donor discussion on the issue. USAID also is an active member of the donor coordination group on gender issues. In preparation for the upcoming Decade of Roma, USAID will collaborate closely with UNDP, one of the sponsors.

Challenges: The combination of continued ethnic tensions and a sluggish economy, with no quick solution to the conundrum of unemployment and poverty, leaves Macedonia fragile and vulnerable to instability and social unrest. The USAID approach is to alleviate points of potential conflict, using its programs to target weaknesses in the political, social, and economic systems. This approach is a critical part of the USAID development strategy for Macedonia which was approved in late 2001. Given the size and scope of US assistance, coupled with the good relations that exist between Macedonia and the US, USAID is in a unique position to help the Macedonian government address these problems.

Key Achievements: FY 2003 was a successful year for the USAID program in Macedonia. It made significant gains that will help lay the basis for strengthening the economy, developing a more democratic society, and helping the educational system become more equitable and better oriented toward market needs.

1. **Growth of the Private Sector:** Under this SO, USAID supports activities that improve the functioning of the financial sector, increase Macedonian firm competitiveness and improve the enabling environment for investment. In the financial sector, 2003 accomplishments included an improvement in the Government of Macedonia's overall flexibility to finance its budgetary deficits. Through the assistance of USAID technical advisors, the Government will now be able to effectively introduce Treasury bills. The first issuance of these securities is scheduled for early 2004, and according to the IMF, reduce the reliance on Central Bank financing to cover revenue shortfalls. In addition, USAID advisors recently recommended amended legislation on the Company Law that removed the legal basis for management and directors to unfairly pressure stockholder employees to forfeit their rights. This will make Macedonian firms more transparent and more attractive to potential stock market investors. The program to enhance the competitiveness of Macedonian firms started well in 2003. A National Entrepreneurship and Competitiveness Council, comprised of key public and private sector participants, was established and identified priority industries and sectors. Two selected clusters (lamb and cheese, and tourism) developed action plans to promote exports, foreign direct investment, and improve management and skills capacity. Macedonian competitiveness was also enhanced by establishing a Quality Control laboratory for meat and dairy processors. This lab allows agribusiness producers and processors to meet international quality standards. Corruption has negatively influenced the business environment in Macedonia. During 2003, USAID supported advisors assisted in establishing a Financial Police Unit for investigating and prosecuting financial crimes. This new unit represents an important move on the part of the Government to reduce and eliminate illegal financial dealings.

2. Democratic Institutions: This SO supports activities to decentralize authority, increase citizen participation in decision making, establish the rule of law, and strengthen the political process. Effective decentralization of authority to the municipal level of government is among the highest priorities for Macedonia. USAID assistance has supported the legislative reform process, particularly the development of the financing of local government; strengthened municipal associations, increased municipal participation in policy making through advocacy and educational initiatives; and trained municipal government personnel in preparation for the new required competencies under decentralization. USAID support and advice was instrumental in the drafting of the Law on Municipal Finance, scheduled to be passed by the end of the year. USAID advisors helped formulate a Memorandum of Cooperation between the Government and the Association of Municipalities (ZELS) ensuring that a collaborative and participatory process guides the decentralization effort. Citizen decision making through private organizations was enhanced by USAID through support to 30 NGOs and 81 local groups that are addressing both local problems and national concerns, such as HIV/AIDS, anti-trafficking, youth issues and conflict prevention matters. Inefficient courts and weak judiciary drastically impede progress in democratic reform and economic development. USAID assistance in this area concentrated on introducing effective administrative and managerial techniques to improve the performance in seven courts around Macedonia. It also helped to ensure independence of the judiciary through policy reform measures such as the design and implementation of the Law on Independent Court Budget. To further strengthen this branch of government, significant training has been devoted to professional development of judges, prosecutors, and lawyers. In addition, USAID has helped to establish constituency offices, and to sponsor public hearings. Political parties have been encouraged to establish a meaningful dialogue between their leadership and membership, and to nurture future leaders rising from youth branches. These initiatives, all new to Macedonia, helped foster a closer relationship between Members of Parliament (MPs) and their electorate.

3. Transition to a Market Economy: Through this SO, USAID supports educational activities that train Macedonian youth so that they are better prepared to find jobs and help Macedonian industry compete in the global market. USAID has supported improvement in the education sector through several activities. At the university level, USAID focused on the development of a private quality university, South East European University (SEEU), which currently serves a multi-ethnic student body. This has led to a dramatic increase in Albanian and female enrollment. SEEU is becoming a model for other universities by providing quality education relevant to current Macedonian development challenges. In selected secondary and primary schools, USAID introduced a program of interactive pedagogy concentrating on the development of critical thinking skills. The purpose is to move instructors away from rote learning methods. According to a recent survey, a first year target of 30% of participating teachers using improved methods has been exceeded. The training impact is expected to grow over the next year when the full training cycle of workshops for the teachers is completed. Also, at the primary level, USAID undertook a small focused program of tutoring and catch-up classes for a group of Roma children to help them improve attendance in the formal Macedonian educational system. Roma school participation and overall performance in the formal schooling system is the poorest of any ethnic group. The results of this pilot were encouraging and USAID is considering a scaled up activity aimed at larger numbers of Roma school children. The Government of Macedonia is engaging in vocational education and has shown real leadership on supporting small artisan enterprises. To help expand employment opportunities, USAID has been successful in assisting artisans to develop markets both locally and abroad for Macedonian products. USAID technical support has helped artisans introduce over 30 new product lines. A local rug maker was able to develop a modified traditional product, and is currently expanding significantly export sales and employment.

Gender: Women of ethnic Albanian background have limited participation in institutions of higher learning in Macedonia. SEEU has provided an increased opportunity for women, predominantly Muslim, to advance their education. A positive achievement in this regard is the female enrollment rates at the USAID supported SEEU, whose student body is 82% ethnic Albanian. The enrollment rates for women are up from 36% last year to 39% of overall students registered in SEEU.

Trade Capacity: USAID technical assistance aided Macedonia's formal accession into the World Trade

Organization (WTO) in 2003. USAID assistance is now focused on bringing Macedonia into full compliance with the WTO. As a first step, the activity assisted the Customs Authority in preparing a publication of tariffs. Through a series of surveys, the activity is now reviewing WTO compliance requirements and required legislation. At the same time, problems identified by stakeholders as critical are being resolved, ensuring that Macedonia engages effectively in world trade.

Country Close and Graduation:

Results Framework

165-0130 Accelerated Development and Growth of the Private Sector

SO Level Indicator(s):

Private sector employment as a percentage of total employment

Total full time employment in private sector firms

IR 1.3.1. Bank and Non-Bank Financial Institutions Strengthened

IR 1.3.2 Private Sector Firms More Competitive

IR 1.3.3. Enabling Environment for Investment Improved

165-0200 More Legitimate Democratic Institutions

SO Level Indicator(s):

Public perception of effectiveness of key government institutions

Public perception of respect for democratic values

IR 2.1. Increased Citizen Participation in Political and Social Decision Making

IR 2.2 Adherence to the Rule of Law Enhanced

IR 2.3. More Effective, Responsive and Accountable Local Government

IR 2.4 Increased Confidence in Government Institutions and Political Processes

165-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision Making

165-0230 More Effective, Responsive and Accountable Local Government

165-0340 Mitigation of Adverse Social Impacts of the Transition to Market-Based Democracy

SO Level Indicator(s):

Increased number of youth better prepared for employment through education programs

IR 3.4.1. Improved Quality and Relevance of Instruction at Primary and Secondary Schools

IR 3.4.2. Support a Training System for Professionalization of School Directors

IR 3.4.3. Increased Access to Education

IR 3.4.4. Local Economic Development

165-0410 Special Initiatives

165-0420 Cross-Cutting Programs